

Brief Summary of Grid West RRG Meeting November 18-19, 2004

Introduction

This summary is intended to briefly describe the topics discussed during the November 18-19, 2004 meeting of the Grid West Regional Representatives Group (RRG). It is not intended to be a verbatim transcript of anyone's remarks, and it is not intended to suggest that any particular representative or entity at the RRG meeting agreed with or endorsed the views described in this summary.

Overview of November 18-19 Meeting

- The RRG met at the Doubletree Lloyd Center Hotel in Portland, Oregon on Thursday, November 18, from 8:40 a.m. to 3:30 p.m., and Friday, November 19, from 8:30 a.m. to 12:00 p.m. PST.
- Approximately fifty people attended the RRG meeting, including twenty-seven designated RRG representatives. Three state representatives attended the meeting in person and one state representative participated by phone.
- A Straw Proposal for resolving major outstanding issues was explained to the RRG. Elements of the proposal included resolution of MTU, TDU, and Generator/Marketer class voting and allocation issues.
- The RRG asked clarifying questions and commented on the elements of the Straw Proposal. On the second day, draft language showing how the ideas would be incorporated into provisions of the proposed bylaws was distributed to the RRG. The Straw Proposal and draft bylaws language are posted on the RRG upcoming meeting page of the Grid West website.
- The Bylaws Work Group presented recommendations and proposed bylaws language to address issues (other than those encompassed in the Straw Proposal) that needed further work from the previous RRG meeting. The presentation is posted on the RRG upcoming meeting page of the Grid West website.
- The goal is to post proposed Developmental and Operational Bylaws by November 23 along with summary and informational documents to aid in understanding of the bylaws. The bylaws will be posted http://www.rtowest.com/RRG_Main.htm . Posting of the proposed bylaws will begin a two-week review by regional stakeholders.
- At an RRG meeting on December 9, the RRG will be asked to assess and voice its views on whether the bylaws should be adopted by the transmission owners as a basis for further development of Grid West.

Straw Proposal for Resolving Outstanding Issues

A Straw Proposal was presented to the RRG to address about a dozen outstanding issues assigned to a small Mediation/Facilitation group. The ideas in the proposal were developed by a small ad hoc group of RRG members and built on the work of the Mediation/Facilitation group. Elements of the proposal are:

Member Vote on Adopting the Operational Bylaws – Aleka Scott said the proposal is that “The Operational Bylaws could not be adopted unless greater than 50% of the voting power held by the Members vote in favor of adopting the Operational Bylaws.”

Financial Transmission Rights – Aleka explained the goal of these proposed elements is to remove any perceived “bias” towards financial transmission rights. The requirement for the Board to periodically reconsider whether to propose a transition to financial rights is removed, as well as the requirement for the Board to consider transition to financial rights within three years (a requirement to consider a different loss methodology within three years will also be removed). Special Issues protections and Members input will be maintained; the Special Issues description will be changed to “Authorization for the Corporation to issue financial transmission rights.” Additionally, the Board will be required to undertake a study of net benefits of issuing financial transmission rights and make that study publicly available.

Checks and Balances Concerning Grid West Evolution – Steve Weiss said these elements are proposed to address the need for substantive Member input on possible “scope creep” of Grid West. With respect to Special Issue votes, the MRC voting test of support for a Special Issue authorization is changed to “unless a majority of the MRC members vote in *favor* of a proposal, the Operational Board would not be able to move ahead with the proposal unless seven Board Trustees vote to proceed.” Also, the Board must include in any proposal to invoke authority a specific identification of the scope of authority it is seeking. Unless there is an emergency, any time the Board has voted to take an action that requires a vote of at least seven Trustees, the approved action may not be implemented until at least 30 days have passed after the Board vote.

The group also proposed provisions to give Members the ability to elevate an Operational Board vote on a “major change” to a higher vote of at least seven Board Trustees. The vote to elevate the vote of the Board must occur within 30 days of the Board’s notice of its vote (or, if not noticed, of the vote). If not less than 18 votes’ worth of voting power held by the Members vote to indicate that an action proposed or approved by the Board constitutes a major change in the scope of activities or the policies of the Corporation, then the Board must vote again and the proposal will not pass unless at least seven Trustees then in office vote in favor of implementation.

Comments: In terms of regional accountability, some RRG participants saw the proposed ability of the Members to require an “elevated Board vote” on a “major change” as positive and helpful. Others voiced concerns that this will cause undue restrictions on the Board’s independence and ability to implement actions.

Additional Cost Control Provisions – Tom Foley explained that a requirement is added for the Board to include a strategic plan along with the future-year budget projections. In addition, if the proposed operating or capital budget for the upcoming fiscal year is greater than the lowest of the previous projected budgets for that fiscal year by more than

15%, then the board must hold a Member advisory vote and the Board can only approve the increased budget by a vote of not less than seven Trustees.

Comments: There was a range of views about this proposed provision. Some thought it was a positive way for Members to have a say in cost control, while others worried about restrictions on the Board. One RRG member was unsure if the proposal was adequate because it did not provide for a binding vote of Members on the budget.

Planning and Efficiency – Bob Kahn explained these elements focus on purposes of the organization. In the Development Bylaws, the Board would be permitted to engage in transmission planning activities before operations commence, subject to member approval. In the Operational Bylaws, the purposes section would include improving efficient use of the system and developing “solutions to operational and commercial problems resulting from limited transmission capacity.”

Member Class Allocation and Voting Provisions - Resolutions to Member Class voting issues were included in the Straw Proposal package.

Alan Davis summarized the outcome of the compromise to the Generator/Marketer class issues was to increase the influence of the states and reduce the influence of the power marketers and out-of-region interests, while still preserving the integrity of the Member Class. The proposal is:

The Generators/Power Marketers/Large Generating End-Use Consumers/Others Member Class will have a total of six votes– four votes to in-region generators, one vote to large generating end-use consumers, and one vote to “others” and power marketers;

One vote was added to the State and Provinces Sub-Class of the Energy Authorities/Tribes/Certain Public Interest Groups Member Class, giving that Class a total of seven votes.

Aleka Scott described the agreed-to concepts of the resolution to Transmission Dependent Utility (TDU) Class allocation:

A large TDU Sub-Class, made up of the largest utilities serving together 50% of the retail load served by all TDUs, would have three votes;

A small TDU Sub-Class, made up of the remaining TDUs, would have three votes;

Voting by this Member Class for members of the MRC would be cumulative.

The next day, when the draft bylaws language was presented, Malcolm McLellan explained the proposed allocation and voting of the Major Transmitting Utility (MTU) Member Class:

In the Developmental Bylaws, the current filing utilities are qualified to become Members of the MTU class, plus Seattle City Light may elect to enter the MTU or TDU Member Class.

In the Developmental Bylaws, the voting power of the MTUs is allocated equally among all Members that are signatories to the Funding Agreement, except the

votes of all Members of the Class count for a vote related to adoption of Operational Bylaws (without regard to signing the Funding Agreement).

In the Developmental Bylaws, the MTU Members will vote for six MRC members from a slate of nominees that may be made up of one representative from each Member of the Class.

In the Operational Bylaws, a Major Transmitting Utility means a transmission owner within the Geographic Area with transmission pole miles greater than or equal to 550 miles. Also, a qualified Member of the TDU Class, that has signed a Transmission Agreement, may enter the MTU Class if a majority of the MTU Class approves. Voting power (other than electing MRC members) is allocated equally among all Members of the Class.

In the Operational Bylaws, if the Class has six or more Members the three Members of the class with the greatest transmission investment, that have signed a Transmission Agreement, are eligible to appoint a member to the MRC. The remaining Members of the MTU class will elect three members of the MRC from a slate of candidates made up of one representative from each Member of the Class.

Further details of the Straw Proposal elements are posted at http://www.rtowest.com/Stage2RRG_Upcoming.htm .

Comments on the Straw Proposal

Each RRG member at the meeting gave his or her views on the merits of the Straw Proposal package.

Some thought the ideas in the Straw Proposal package provided a better balance between Board independence and the region's ability to have input regarding the activities and costs of the proposed entity, and stated they were willing to consider moving ahead with the proposal. BPA stated that, with this package, all of the issues it had listed have been dealt with and said the proposal was worthy of serious consideration.

Others stated that the compromises reached to resolve the listed issues had move too far from the regional proposal, and expressed concerns about the complications and restrictions put upon the independence of the Board. Several participants stated that the quality of people – Trustees, officers, and staff -- associated with organization will be of paramount importance and hoped that the entity would be able to attract and employ “world-class” individuals.

One view was that the proposed Beginning State has the “roots” to provide value to the region. Independence of the Board means independent from market participants, but not independence from regional input. While the proposed provisions are a balance between independence and regional accountability, the Board should be allowed to move ahead with developing good solutions as design and management of the entity proceeds.

A number of RRG participants commented on their concerns related to whether FERC would give sufficient deference to the Grid West proposals developed by the region. The

RRG recognized that it would need to further consider an approach to addressing this concern.

Presentation of Draft Portions of the Bylaws Incorporating the Straw Proposal

The Bylaws Work Group drafted proposed bylaws language during the end of the day on November 18. The next day's meeting began with the Work Group presenting draft language incorporating the ideas presented in the Straw Proposal.

The plan is to post on the website by November 23 both clean draft versions of the Developmental Bylaws and the Operational Bylaws and drafts showing redlined revisions since the July 7 "good enough" versions. This will begin a two-week review period by the region. The RRG also requested that a Q and A Summary of bylaws, including provisions related to accountability of Grid West Members, provisions advancing Board independence, and cost control provisions, be posted to help people understand provisions of the bylaws during the review.

The Bylaws Work Group was given a round of applause in appreciation of its herculean efforts to address people's issues and prepare the bylaws for assessment.

Presentation of Follow-up Issues from the Previous RRG Meeting

Don Brookhyser, presented on behalf of the Bylaws Work Group, the follow-up proposed changes to the bylaws based on feedback from the October 26-27 RRG meeting.

- Trustee Runoff Elections (Sec. 7.2.4, Operational Bylaws)
The MRC "may" request additional candidates at any time during the process of nominating and electing Trustees.
- Budget Committee (Sec. 8.4.1, Operational Bylaws)
The Budget Committee shall consist of between three and five Members and either two or three Trustees. The Board shall endeavor to appoint one, but no more than one, qualified representative from each Member Class. The Budget Committee quorum is three committee members.
- Budget Forecasts (Sec. 8.4.2, Operational Bylaws)
The Budget Committee shall include in the preparation of an annual budget estimated timing and expected sources of funding for expenditures.
- Disbanding Initial Required Standing Committees (Sec. 8.2.1, Operational Bylaws)
Before disbanding any of the initial required committees, Tariff, Operations, or Planning, the Board should consider how disbanding that committee would affect Member participation in the formulation of policies, protocols, tariff provisions, and any other rules or guidance pertinent to the subject area of the committee.
- Tariff Committee in Developmental Stage (Sections 8.2.1 & 8.2.2, Developmental Bylaws)
The Developmental Board shall consider appointing a Tariff Committee to advise it, and shall consider the advice of the RRG.
If a Tariff Committee is established, the Board shall appoint up to fifteen representatives of Members and also may appoint Trustees; and shall

endeavor to appoint representatives from each Member Class who are qualified in the area of transmission terms and conditions.

- Prohibition on Gifts (Sections 7.11.1 (iv) Developmental and Operational Bylaws)
Receipt of gifts from any Market Participant or Member offered as a consequence of service as a Trustee is prohibited at any time after service.
- Special Issues Definitions (Sections 7.16.2-4, Operational Bylaws)
Clarified Special Issues definitions related to Authorization to Exercise Backstop Measures, Departure from Company Rate approach, Authorization to Issue Financial Transmission Rights, e.g., a congestion management approach relying on a market-based system to relieve congestion in conjunction with historical contract path or physical injection-withdrawal rights does not need special authorization.
- Other clean-up changes to Developmental Bylaws
- Statement of Limited FERC Jurisdiction Added to Operational Bylaws (Section 5.17)
“A Member of the Corporation acquires no proprietary or operational interest whatsoever in facilities used in interstate transmission or wholesale sales of electric energy in interstate commerce solely as a consequence of membership in the Corporation,” i.e., membership shall not be construed as a grant of jurisdiction over the Member by any state or federal agency not otherwise having such jurisdiction.

The RRG was generally okay with these proposed changes presented by the Bylaws Work Group.

RRG Review and Meeting to Assess Bylaws

- **By November 23** - Proposed clean and redlined versions of both the Developmental and Operational Bylaws posted for RRG review at http://www.rtowest.com/RRG_Main.htm .
- **By November 24** – Q and A Summary of bylaws posted at http://www.rtowest.com/RRG_Main.htm .
- **December 9** – RRG Meeting at the Sheraton Portland Airport Hotel beginning at 8:30 a.m.; RRG gives assessments of the bylaws; this is meant to be a way for transmission owners to gauge the indication of support from the region.
- Filers’ hold meeting to decide whether to adopt bylaws soon after RRG meeting (December 9-10).